



PREPAID SALES TAX AND SALES OF FUEL

If you distribute or sell certain fuels in California, you may be required to collect or pay prepaid sales tax

If you are a producer, distributor, broker, or jobber of certain fuels, you are required to collect a prepayment of a portion of the sales tax when you distribute or sell the fuels inside California. If you are a retailer or other seller of fuel who has prepaid the sales tax to your suppliers, you can reimburse yourself by claiming a credit for the prepaid tax when you file your sales tax returns.

Prepaid sales tax is imposed on each gallon distributed or sold and the rate varies depending on the type of fuel involved. The prepayment rate may also be adjusted annually or more frequently. The Board will give you prior notification of any rate change. The prepayment rate does not affect the current sales and use tax rate on retail sales.

Fuels Subject to the Precollection Provisions

Fuels subject to the requirement to precollect sales tax include:

- Gasoline (motor vehicle fuel)
- Gasohol
- Diesel, including diesel fuel no. 1 and no. 2, dyed diesel, marine diesel, and home heating oil meeting industry specifications for diesel fuel nos. 1 and 2
- Aircraft jet fuel
- Kerosene and other qualifying fuels

The precollection provision does not apply to aviation gasoline used to propel an aircraft or to fuels that cannot be used to propel motor vehicles. In addition, the following fuels are specifically excluded from the requirement to collect prepayments: liquefied petroleum gas, compressed or liquid natural gas, and methanol and ethanol containing not more than 15 percent gasoline or diesel fuel.

Sellers Making Only Sales for Resale

If you qualify as a producer, distributor, broker, or jobber who distributes or sells fuel to *other* producers, distributors, brokers, or jobbers, or to retailers, you are required to obtain a permit with an "SG" prefix in addition to your regular sales tax permit. Unless you are registered under the Motor Vehicle Fuel License Tax, you must contact your local Board office to obtain an "SG" permit. Businesses holding a Motor Vehicle Fuel License Tax permit are automatically registered for an "SG" permit.

After you have registered for an "SG" permit, the Board will send you a special "SG" return which has a *Schedule A* for reporting your taxable distributions, sales, or transfers and a *Schedule B* to report any taxes you have paid to other distributors, brokers, producers, importers, or jobbers. The "SG" return is due on or before the 25th day of the month following the month of distribution. Instructions on how to prepare the "SG" return and accompanying schedules are included with each return.

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Sellers Making Only Retail Sales

Service station operators or other persons who purchase fuel to resell to users or consumers are considered retailers. If you make only retail sales, you are not required to obtain an “SG” sales tax permit. Instead, you should charge the full applicable sales tax rate on fuel sold to your customer and claim a credit for the precollected sales tax you paid to your suppliers on *Schedule G* of your sales and use tax return. Instructions on how to prepare the sales and use tax returns and the appropriate schedules are included with each return.

Sellers Making Both Retail Sales and Sales for Resale

If you qualify for an “SG” permit and you also make retail sales of fuel to consumers, you are required to file two separate returns: an “SG” return to report your distributions, and a regular sales and use tax return to report your retail sales. On *Schedule A* of your “SG” return, you must list your seller’s permit number and report prepaid tax on any fuel that you have taken from your inventory to sell at retail. (You must also list distributions to other sellers or retailers.) When you report the retail sales of this fuel on your regular sales and use tax return, you may claim a credit for the prepaid tax by including the distribution on *Schedule G* and listing your “SG” permit as the source of supply.

Records

The law requires that you maintain complete and adequate records of all business transactions in support of the tax return you have filed. These records may be examined by a representative of the Board to verify the accuracy of your returns. Failure to keep adequate and complete records may result in the assessment of penalties.

The records that you maintain should include all those generally expected of the typical distributor or service station. In addition to summary records, you should retain all sales invoices, purchase invoices, and any documents used to record your operations which support the returns you have filed. At the time you registered for a permit, you should have been given a copy of Regulation 1698, *Records*, which details the type of records you should keep.

Reconciliation of Reported Amounts

As part of its audit program, the Board of Equalization will routinely compare the amounts claimed on a retailer’s *Schedule G* to the distributions reported on a supplier’s “SG” return to ensure proper claiming of tax credits. Any discrepancies or differences between the records of suppliers and retailers will be examined in detail and may result in an audit.

For More Information

Additional information on the precollection program for sales tax is included in the instructions for each tax return and in Pamphlet no. 25, *Tax Tips for Auto Repair Garages and Service Stations*. You can also request copies of Sales and Use Tax Law Sections 6480.1 and 6480.16, the law sections which govern the prepayment of tax. To obtain these publications or answers to any questions, you should contact your local Board office, which is listed in the State Government Offices pages of your telephone book under *Equalization, Board of*.